Consumer Surplus and Bank Value*

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Abstract

We examine how banks create value for consumers. We find that bank deposit-taking, rather than bank mortgage lending, accounts for the bulk of consumer surplus generated in the banking sector. Our estimates indicate that the demand for deposits is inelastic and that consumers place a high value on the deposit services offered by banks. Conversely, the demand for mortgages is highly elastic with consumers simply selecting the mortgage provider offering the lowest rate. Our results also indicate that the growth of the shadow banking sector has led to modest welfare gains for consumers.

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